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July 8, 2005

The Honorable Roger P. Nober
Chairman
Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423-0001

Dear Chairman Nober:

In response to your June 15 letter requesting our view of 2005's expected "Fall Peak" shipping season and how we plan to meet those demands and how they may affect BNSF and the industry, we offer the following observations, actions and goals to meet our customers' expectations.

As BNSF has stated many times, we attempt to balance existing capacity, as well as our annual "expansion capital" program, against the imperfect demand forecasts of our customers. Given the unprecedented and unpredicted rail volumes BNSF has been moving since mid-2003, we are proud of keeping our overall rail network fluid. In response to these volumes, the expansion portion of our 2005 capital plan was doubled compared with 2004 and represents 22 percent (or about $450 million) of our $2.1 billion capital program. These dollars are largely applied where we see our rail network coming under stress.

At the same time, there are significant financial constraints that will not allow BNSF, nor do we believe any other railroad, to invest in sufficient capacity just in order to be ready to handle potential large volume spikes. There has also been a lot of discussion about Return on Invested Capital ("ROIC") and the need to shrink the gap between this ratio and a railroad's cost of capital. I am pleased that in 2004, BNSF was able to improve its ROIC, as we measured it, to 7.9 percent from 6.6 percent in 2003. One key factor behind this improvement is our ability to provide increasing value for the transportation services we offer our customers. We expect further improvement in ROIC this year.

With these observations as a backdrop, let me cite actions we took late in 2004 and earlier this year through our capital investment program to provide more capacity to deal with this historically strong rail demand. These actions have been discussed with BNSF customers and our short-line partners through various symposia that we have held or participated in, as well as in one-on-one meetings with shippers and our rail partners.

In 2005, we will acquire 285 new locomotives, and more than half of these units are now operating on our network, with the balance coming on line throughout the remainder of this year. At this time, we expect to add a couple hundred more locomotives beginning at the outset of 2006. Thus, between 2004 and 2006, more than 800 new line-haul, fuel-efficient locomotives will be added to our fleet.

Along with last year's car shopping program and this year's acquisitions, our car fleet is in good condition and ready for Peak. We have added more than 6,500 cars this year, building on last year's acquisition of almost 4,500 cars. Among the car types added in 2005 are: 3,000 covered hoppers, 1,500 coal cars, 600 centerbeam flatcars and 550 40-foot doublestack cars. This is in addition to private car fleets that operate on our railroad.

We have finished 100 miles of double track between Avard, Oklahoma, and Amarillo, Texas, this year, which will add additional track capacity on our very busy Southern Transcon route. We also will complete the engineering and some of the grading for adding another bridge in 2006 over Abo Canyon in New Mexico, getting us very close to completing the double tracking of this route, which is our busiest. In addition, this year, we also are triple tracking a section of the Cajon Pass route and expect to complete this triple track project in 2007. Further, we are adding more triple track on the Joint Line in the Powder River Basin ("PRB") to accommodate growth in our coal business.

It is timely to make some further comments about the PRB in view of two mid-May derailments on the Joint Line which occurred as a result of heavy rains and unusually heavy snow storms in late April through mid-May. This precipitation was further exacerbated because it followed the usual spring thaw and the start of the 2005 Maintenance Program on the Joint Line. Another contributing factor was the long-term accumulation of coal dust on this trackage which caused the ballast section to retain water and compromise track stability in a number of locations. By contrast, drought conditions prevailed during this time frame in 2004 and 2003.

BNSF implemented a containment plan over a four-day period and rerouted over our network where we could, and by May 31, BNSF coal loadings returned to near-normal levels. As part of our 2005 capital plan, we had an extensive maintenance program in place for the PRB, and we have revised it because of the unprecedented levels of precipitation. This plan for the jointly-owned PRB line has the concurrence of Union Pacific Railroad, which shares its cost. The intensified plan calls for undercutting, cleaning of shoulder ballast, track surfacing, and installation of new and replacement concrete ties. The enhanced effort began this week and will continue for several months. We expect modest impact on the number of coal trains that will be operating daily on the Joint Line during the balance of 2005. We have been working closely with our utility customers and the mines to ensure that coal supply is in line with their needs. We also have used our Web site, www.bnsf.com, to supplement our direct communications with customers.

As we indicated in last year's "Peak" letter to you, in 2004, BNSF hired about 3,500 people, including some 2,300 conductors. Our 2005 hiring program is equally aggressive, and we have already brought on board 2,500 people, including 1,700 conductors, 500 Engineering employees and 300 Mechanical employees. Thus, from a hiring perspective, we're ready for Peak.

Other actions that we continue to take include: extending train length by another 5 percent on top of last year's 10 to 15 percent increase, depending on type of train, to create additional train slots and managing eastbound in-gate activity at key intermodal facilities such as Hobart in Los Angeles. We also will have a significant amount of this year's major track maintenance work behind us by October 1. In each instance, we have worked with our customers to explain what we are doing, why we are doing it and what impact this will have on them. These actions are designed to keep our network fluid and ensure that we are prepared to provide the service necessary during Fall Peak to meet our customers' expectations.

We also have analyzed last year's Fall Peak volumes and compared them with our customers' demand forecasts for this year. We see reduced volume growth at this time. We believe the key to our network's fluidity is to keep our intermodal velocity close to our plan targets, meeting an adjusted coal cycle plan and continuing to achieve our daily targets for grain, which we have been doing for more than a year.

We believe we are in better shape this year to deal with Peak because of these additions to our infrastructure and adjustments to our operating approach. We have run a safer railroad this year with 16 percent fewer derailments and a 15 percent reduction in personal injuries through June. We expect these trends to continue, providing BNSF with good recoverability leverage when we need it.

As you can see, we have been working for some time to be prepared for Fall Peak this year and in future years. As always, the key to whether we will be successful at providing the service performance required is directly related to the level of Peak volumes. This requires close cooperation between BNSF and its customers. I'm convinced that we have made great strides in this direction during the past 12 months. We look forward to participating in the AAR North American Railroad Customer Forum in St. Louis on September 22.

There is no way to set specific performance metrics for this period, but BNSF is committed to delivering the highest level of performance possible, given the imprecision of demand forecasts and the resulting variability of equipment velocity. BNSF handled 40 percent of the total Class I rail growth of over two million units in 2004. While 2005 is not pacing at that level, we are confident that we will remain fluid through the 2005 Peak Season. The broader question remains: Will America have the transportation capacity it needs at the right time to meet the longer-term demand of a growing U.S. economy that is vitally engaged in international trade? This is a very critical question, considering current under-capacity on our highways, truck driver shortages and quality of life issues and community concerns over emissions, as well as the ongoing gap between a railroad's ROIC and its cost of capital which limits its capital spending.

Please let me know if you have any questions, as the success of our industry in serving its customers is based on ensuring that we have a common understanding about expectations.

Sincerely,

Matthew K Rose

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cc: The Honorable W. Douglas Buttrey
The Honorable Francis P. Mulvey
Mr. Edward R. Hamberger
Mr. Melvin F. Clemens